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Message Text

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44
ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /133 W
---------- 021712
R 151311Z JUL 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC
SECSTATE WASHDC 3683
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC
USDEL MTN GENEVA

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DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

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SUBJECT: PROPOSED SPENDING CUTS; THE SELLING JOB CONTINUES

1. THE GOVERNMENT'S PREPARATION AND SOFTENING UP EXERCISE CONTINUES. BOTH THE PRIME MINISTER AND THE CHANCELLOR OF THE EXCHEQUER ON JULY 14, WARNED THE PARLIAMENTARY LABOUR PARTY AND THE TUC LEADERS THAT THE LABOUR GOVERNMENT'S SURVIVAL DEPENDS ON AN ECONOMIC STRATEGY THAT CALLS FOR CUTS IN PUBLIC EXPENDITURE NEXT YEAR. THE CHANCELLOR IS WIDELY QUOTED IN PRESS ARTICLES AS STATING THAT TO RELY ON TAX INCREASES TO BRING DOWN THE PUBLIC SECTOR DEFICIT IS NOT ON. A BILLION POUND CUT IN THE PUBLIC SECTOR BORROWING REQUIREMENT WOULD MEAN AN ADDITIONAL 3 PENCE EXTRA ON THE STANDARD RATE OF INCOME TAX. TO OBTAIN THIS AMOUNT OF ADDITIONAL REVENUE BY INDIRECT TAXES COULD INCREASE THE COST OF LIVING BY NEARLY 3 PERCENT. EITHER ALTERNATIVE WOULD PLACE INTOLERABLE STRAIN ON THE GOVERNMENT'S PAY POLICY. QUOTE "...SO THE MAIN CONIBUTION MUST COME FROM PUBLIC EXPENDITURE, THOUGH WE MUST CONTRIVE TO PROTECT OUR INDUSTRIAL AND SOCIAL PRIORITIES IN ANY REDUCTIONS MADE. IF WE DO NOT TAKE THE NECESSARY DECISIONS VERY SOON WE MAY FACE ANOTHER RUN ON STERLING BECAUSE THE PEOPLE
WHO HOLD STERLING NOW ARE WORRIED THAT INFLATION MAY RISE AND THEIR STERLING LOSE ITS VALUE.

QUOTE THAT WOULD MEAN SEEING THE POUND FALLING TO A LEVEL THAT WOULD SEND PRICES ROCKETING UP AGAIN, OR SPENDIN THE STAND-BY CREDIT AND LOADING OURSELVES WITH AN ADDITIONAL BURDEN OF DEBT OR EVEN BOTH.

QUOTE IF SO, WE SHOULD THEN BE FORCED INTO MUCH BIGGER EXPENDITURE CUTS THAN WOULD BE NECESSARY IF WE TAKE THE RIGHT ACTION NOW. AND THE GOVERNMENT ITSELF MIGHT NOT SURVIVE THE STRAIN.

QUOTE THE CHOICE IS CLEAR. EITHER WE RISK BEING PUSHED BY A COLLAPSE OF FOREIGN CONFIDENCE INTO A MASSIVE DEFLATION WHICH WOULD DESTROY OUR PLANS FOR FULL EMPLOYMENT ...OR WE MOVE STEADILY BACK TO FULL EMPLOYMENT AND CONCENTRATE ON REVERSING THE POSTWAR DECLINE IN OUR MANUFACTURING INDUSTRY BY GETTING OUT OF DEBT AS OUR RECOVERY GATHERS STRENGTH.
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QUOTE IF WE CHOOSE THE FIRST COURSE, THE GOVERNMENT WILL NOT SURVIVE, AND ALL THE GAINS WE HAVE MADE IN THE PAST 2 YEARS WILL BE THROWN AWAY. THE TORIES WILL INHERIT THE REWARD OF ALL OUR SACRIFICES. AND THE NORTH SEA WILL BE PRODUCING OIL FOR A CONSERVATIVE GOVERNMENT. UNQUOTE

2. SIMILAR STATEMENTS ARE ATTRIBUTED TO THE PRIME MINISTER, WHO HAS INDICATED THAT THERE ARE NO EASY SOLUTIONS.

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QUOTE...BUT BEAR IN MIND THAT WHAT WE ARE DOING IS AP-
PLAUDED ABROAD. WE ARE HELD IN RESPECT ABROAD BECAUSE OF
THE COOPERATION BETWEEN THE GOVERNMENT AND THE TRADE UN-
ION MOVEMENT, AND BECAUSE OF THE RESTRAINT AND COOPERATION
THE TRADE UNIONS HAVE SHOWN. THIS GOVERNMENT CANNOT SUR-
VIVE UNLESS IT HAS THE SUPPORT OF THE PLP AND THE TRADE
UNION MOVEMENT. UNQUOTE.

3. REPORTS ARE CIRCULATING THAT EVERY SPENDING MINISTRY
HAS BEEN TOLD TO COME UP WITH SOME CUTS TO FIT INTO A
ROUGHLY 1 BILLION POUND PACKAGE. THE CABINET IS TO DIS-
CUSS THE CUTS TODAY, AND FURTHER DISCUSSION WITH THE PLP
MAY BE HELD NEXT WEEK. THE ACTUAL ANNOUNCEMENT OF THE
CUTS COULD BE EITHER AT THE END OF NEXT WEEK OR AT THE BE-
GINNING OF THE WEEK OF JULY 26. SPIERS

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